OUTLOOK FOR LIVESTOCK AND POULTRY

Shayle D. Shagam
Livestock Analyst
World Agricultural Outlook Board, USDA

For the livestock sector, the year 2004 can possibly be summed up in the opening lines of Charles Dickens's A Tale of Two Cities: " It was the best of times, it was the worst of times... ...it was the spring of hope, it was the winter of despair..." The United States lost many of its major export markets for beef due to the discovery of a case Bovine Spongiform Encephalopathy (BSE) in December 2003 and faced trade restrictions in poultry due to discoveries of Avian Influenza in early 2004. Analysts held their collective breath, waiting for large pork production increases as producers expanded in response to good returns. Yet, despite record domestic supplies of meat, average cattle prices in 2004 eclipsed 2003's record, broiler prices reached a new record, and hog prices were the highest since 1997.

The year 2005 opens with great promise. Strong demand for meat protein and moderate growth in meat production have continued to support prices, grain costs have moderated, and the multi-year drought in the western United States has diminished. Producers have responded to increased returns in a measured fashion. Production increases in pork and poultry are expected to be quite moderate in response to the good returns currently enjoyed by these sectors. Positive returns for cow-calf producers and a lessening of drought in the western United States have led to a turnaround in the cattle cycle which had experienced 8 years of liquidation. There are, however, points of caution in the upcoming year. Although progress has been made in addressing the concerns of our trading partners, major U.S. beef export markets remain closed and supplies of red meat and poultry for domestic consumption are expected to increase 2-3 percent. Domestic demand remains firm but increased supplies of meat are expected to pressure prices down from last year's highs. As the United States continues to expand export sales, markets will likely find additional support. Continued economic growth and favorable exchange rates may be key factors for the U.S. meat sector in 2005.

Cattle Inventories Turn Up

After 8 years of decline, the U.S. cattle sector has entered its rebuilding phase. The January 2005 *Cattle* report estimated that the number of cattle and calves on farms on January 1 were 1 percent higher, at just over 95.8 million head. The number of beef heifers retained for breeding were up about 4 percent and the number expected to calve was up 3 percent. However, the 2004 calf crop was nearly 1 percent lower than the previous year, and was the smallest calf crop since 1951. This implies that the pool from which beef cow replacements will be drawn is rather limited.

Conditions are favorable for expansion of the herd. Returns to cow-calf producers over the past several years have been positive and forage conditions have improved in much of the western United States. According to USDA’s National Agricultural Statistics Service, the percentage of U.S. pasture and range which was rated very poor or poor fell from 39 percent in late October 2003 to 22 percent in the same period of 2004. The improvement in conditions is also born out by the 7-percent increase in the number of animals grazing on small grain pasture in the 3 reporting states on January 1, 2005. Corn prices are moderating from last year's highs and prices for feeder calves are expected to average in the low $90's per cwt, a decline from last year but above prices in the mid 1990's and early 2000's.

The number of cattle on feed on January 1 was down fractionally. Although supplies of cattle outside feedlots are about 2 percent larger, increased heifer retention should result in smaller placements during the year. However, the recently announced minimal risk rule is expected to lessen the impacts of a smaller pool of U.S. feeder calves. Supplies of feeder cattle in Canada are large and although placements in Canadian feedlots have been increasing in response to the expectations of trade in under-30 month old cattle resuming on March 7, imports of feeder cattle from Canada are expected to support on-feed numbers above year-earlier levels through most of 2005.

Fed cattle marketings in 2005 from U.S. feedlots are expected to average slightly above 2004. The resumption of trade in cattle less than 30 months of age from Canada is expected to result in an increase in the availability of fed cattle. Cattle inventories in Canada have been building since the closure of the U.S. border to live animal trade in May 2003. Despite increases in Canadian slaughter capacity, U.S. packers, who have been operating at less than desired levels of utilization, are expected to bid very aggressively for the pool of North American cattle. Increased steer and heifer slaughter, coupled with higher slaughter weights, are expected to result in increased U.S. beef production. Commercial cow slaughter declined just over 15 percent in 2004 to 5.2 million head and will likely remain near that level in 2005. Commercial beef production is forecast to increase 4-5 percent to 25.7 billion pounds in 2005.

After averaging a record $84.75 per cwt in 2004, fed cattle prices in 2005 are forecast to average $80-$85 per cwt. Prices thus far this year have been exceptionally strong, partly due to concerns about winter weather, but are expected to decline as cattle imports resume and U.S. beef production increases. However, even with access to Canadian cattle, U.S. packers will still be facing cattle supplies which are below the levels of 2002. Retail beef prices are expected to be lower in 2005 as large supplies of beef compete for consumer dollars. Retail prices are forecast to average in the mid to upper $3.80's per pound for 2005, down from 2004's $4.07 per pound.

The United States regained access to a number of export markets for beef during 2004 but remains excluded from our major Asian markets. The United States has made progress developing a framework and conditions for resuming trade with Japan but no specific opening date has been proposed and revised BSE slaughter regulations must work their way through Japan’s regulatory system. Because of uncertainty about the length of bans imposed on imported beef from the United States, USDA export forecasts have assumed that bans currently in place will remain until countries announce their removal. Thus, beef exports in 2005 are forecast at

640 million pounds. Lower prices and a favorable exchange rate will help increase exports to the markets currently open.

U.S. beef imports are forecast at 3.74 billion pounds in 2005, up almost 2 percent from 2004's record. Imports from Australia in 2004 were slightly below the previous year, as Australia sharply increased sales to Japan and South Korea which had closed their markets to U.S. beef. U.S. imports from New Zealand were about unchanged as beef was also redirected to Japan, Korea, and Taiwan. The United States dramatically increased imports from Canada and Uruguay. Both countries had large supplies of beef, and with high U.S. prices, and, in the case of Canada, limited export markets, shipments to the United States increased dramatically. Very tight supplies of processing beef will support imports in 2005. Imports from Canada are expected to increase despite restrictions on imports of beef from cattle over 30 of age. Although the resumption of trade in under-30 month old cattle from Canada will help dissipate the oversupply of cattle in that country, imports of beef are expected to remain large as the United States remains the major destination for Canadian beef.

Pork Production At Record Level

Despite about a year of favorable returns, U.S. hog producers have expanded production only modestly. On December 1, 2004 the inventory of all hogs and pigs was about 60.5 million head, only fractionally larger than the inventory on December 1, 2003. Breeding herds continue to shrink as herd productivity gains permit more animals to be produced with fewer sows. Producers indicated in the December report that they intend to farrow about the same number of sows during December-May as last year. If producers continue to hold the line on expansion, the U.S. pig crop in 2005 will likely increase less than 1 percent.

Hog slaughter in 2005 will reflect modest increases in U.S. hogs also expected declines in imports of hogs from Canada. Imports in 2004 reached 8.5 million head with about two-thirds of imports represented by hogs under 110 pounds. However, imposition of an anti-dumping duty bond on imported Canadian hogs and slowing in the growth of the Canadian hog sector may cause imports to decline to about 8.2 million head. The investigation of subsidies, dumping, and injury from Canadian hogs is still continuing with a final judgment expected in late spring. Changes in these duty orders could affect the level of imports in 2005. Nonetheless, it is expected that commercial hog slaughter will reach 103.8 million head. In 2005, commercial pork production is forecast at a record 20.7 billion pounds, up from 2004's record of 20.5 billion pounds.

In 2004, hog prices, on a national base, 51%-52% lean, live equivalent, averaged $52.51 per cwt, up 33 percent from 2003 and the highest price since 1997. Strong demand for meat protein in the United States, coupled with record exports supported prices despite a 3-percent increase in pork production. In the first quarter of 2005, prices are expected to average $51-$53 per cwt. However, later in the year, hog prices are likely to come under pressure from increasing supplies of beef and poultry. After peaking in the second quarter, prices are forecast to generally decline through the rest of the year. Prices in 2005 are expected to average $47-50 per cwt.

Pork retail prices are expected to be in the upper $2.70's per pound range for 2005, about unchanged from last year. Pork retail prices in the latter part of 2004 averaged above $2.80 per pound and although they will have declined from their late summer peaks, retail prices are expected to remain above year-earlier levels in the first months of 2005. However, as increased supplies of beef and poultry enter the market, retail pork prices are expected to weaken in the second part of the year.

Pork exports in 2005 are forecast to rise about 5 percent to a record 2.29 billion pounds. In 2004, pork exports increased 27 percent on growth to almost all major markets. Exports increased to a number of Asian countries largely because of restrictions on imports of poultry and beef. However there was substantial growth in sales to Mexico and Canada. Good economic growth and favorable exchange rates helped boost sales to these markets. Growth is expected to continue into 2005 as prices decline slightly. However, the double digit rates of growth which characterized 2004 are unlikely to carry into 2005. Much of the increase in foreign demand resulting from shortages of competing meats has already been achieved and the rate of export growth is expected to slow. Pork imports declined 7 percent in 2004 but are expected to rise 9 percent in 2005. An anti-dumping duty bond is being applied to Canadian hogs but imports of pork from Canada may enter the United States free of duty. Thus it is expected that Canadian packers will slaughter more hogs and ship the pork to the Unites States.

Sheep and Lamb Inventory Increases

In 2004, the inventory of all sheep and lambs showed its first increase since 1990. On January 1, 2005 the inventory of sheep and lambs stood at 6.14 million head, up slightly from a year earlier. The breeding sheep inventory increased about 1 percent from a year ago. Payments under the Ewe Retention Program and an improvement in pasture and range conditions may have encouraged producers to retain ewes and add to the breeding stock. However, the 2004 lamb crop decreased 1 percent to a record low of 4.1 million head. In 2005, commercial production of lamb and mutton is projected at 201 million pounds, up about 3.6 percent from 2004. Higher weights may offset the decline in lamb numbers in the first half of the year and increased production of lambs may not impact slaughter numbers until late in 2005.

In 2004, Choice slaughter lamb prices were boosted to $96.69 per cwt by declining production and relatively flat import growth later in the year. In 2005, lamb prices are expected to remain relatively strong at $94 to $100 per cwt.

In 2005, lamb and mutton imports are expected to be about 190 million pounds, up almost 5 percent from last year. Despite high U.S. prices, imports in the latter part of 2004 were limited by a weakening U.S. dollar which increased the cost of imported lamb. Despite higher forecast lamb slaughter in Australia; these circumstances are expected to constrain import growth through the first half of 2005.

Broiler Production To Expand

Broiler producers are set to expand broiler meat production just over 3 percent in 2005. After two years of favorable returns and last year's record prices, growth of this magnitude shows considerable restraint on the part of producers. Weekly eggs set during 2004 were an average 2.3 percent higher and in the first 6 weeks of 2005 have increased about 2.5 percent. Broiler prices are expected to decline from 2004's record. Moderating grain prices and continued strong demand for meat protein are expected to help support placement levels above last year and likely encourage continued gains in bird weights. However, compared with historical industry response to favorable returns, growth in broiler meat production is likely to be quite moderate.

Broiler prices, as measured by the 12-City Wholesale price, are forecast at 71 to 76 cents per pound, compared with an average of just over 74 cents in 2004. Increased supplies of meat, particularly beef, are expected to pressure broiler prices. Retail broiler prices are expected to decline in the second half of the year but average about the same as 2004. However, continuing recovery in exports likely will help limit declines in broiler prices.

Broiler meat exports are forecast to increase 5 percent to about 5.03 billion pounds in 2005 but will remain below 2001's record of 5.5 billion pounds. Russia's TRQ will continue to limit imports from the United States to 1.7 billion pounds (771,900 tons). However, as a result of delays in issuing quotas early in the year, the United States shipped less than quota levels to Russia in 2004. Thus, there is potential for exports to Russia to increase modestly in 2004. Exports of broilers to China/Hong Kong were depressed in 2004 as a result of border restrictions due to the discovery of Avian Influenza in the United States. Although trade resumed in November, exports have not returned to their pre-ban levels. Brazil dramatically increased exports to China during 2004 and can be expected to be a strong competitor in 2005. There likely will be opportunities for growth in a number of other small markets but these markets tend to be price sensitive. High broiler parts prices in mid 2004 limited trade with some of these countries but lower prices may encourage larger sales in 2005.

Turkey Production Steady

After 2 years of declines, turkey production in 2005 is forecast to increase 2-3 percent to 5.58 billion pounds. Despite increasing returns, turkey production declined 3.7 percent last year as egg sets lagged year earlier levels in every month from mid-2003. The number of turkeys slaughtered in 2004 declined more than 5 percent, only slightly offset by a small increase in average live weights. Recent egg sets have remained below year earlier, indicating producers are remaining cautious in expansion plans. The rate of decline in sets had been slowing through December but the number of eggs in incubators was down 6 percent on February 1.

As supplies have tightened, turkey prices, which had declined to 1998 levels in 2003 rebounded sharply in 2004. Prices for Eastern hens in 2004 averaged 69.7 cents per pound, their highest level since 2000. As only moderate production gains are forecast in 2005, prices are forecast at 69 to 73 cents per pound.

The export outlook for turkey is positive in 2005, with an increase of 15 percent to 510 million pounds expected. Despite increases in sales to Mexico, the largest market for U.S. turkey, 2004 exports fell about 8 percent as sales to China/Hong Kong were restricted over concerns about

Avian Influenza. With an expected recovery in sales to this market and continued growth in sales to Mexico, exports in 2005 are likely to exceed 2001's record.

Egg Prices Down From Record Levels

After egg prices reached record levels during the latter part of 2003 and early 2004, producers increased egg production. Table egg production, which had been flat in 2003, increased 2.4 percent in 2004. Production of egg-type hatching eggs and the flock of egg-type layers, which had been below year-earlier since mid-2003, began increasing in mid-2004. In the face of larger supplies, wholesale prices averaged in the mid-60 cent range in the second half of 2004 and prices are likely to soften further in 2005 after seasonal first quarter increases. With weaker prices, table egg production growth this year is expected to moderate. Table egg production in 2005 is forecast to be 6.5 billion dozen, almost 2 percent above 2004. Hatching egg production likely will increase about 2 percent.

Deleted: In the face of

Given tight first quarter supplies and strong demand for protein, egg prices climbed sharply in early 2004. Prices declined as supplies increased later in the year. Wholesale eggs averaged 82.2 cents per dozen, almost 6 cents below 2003's record but still tied with 1990 as the second highest prices ever. In 2005, wholesale egg prices are forecast to decline to 64 to 68 cents per dozen.

Additional information about the 2005 livestock and poultry forecasts is available at:

World Agricultural Supply and Demand Estimates
www.usda.gov/agency/oce/waob/waob.htm

Livestock, Dairy, and Poultry Situation and Outlook
www.ers.usda.gov/publications/ldp/

Livestock and Poultry: World Markets and Trade
www.fas.usda.gov/dlp/dlp.html